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C O N F I D E N T I A L SECTION 01 OF 04 BEIJING 003221

SIPDIS

State for EAP/CM

State also pass to EEB/ESC Tom Hammang, NEA/IR
Rajeev Wadhwani, EEB/TFS Chris Backemeyer, INR/EAP,
INR/NEA

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TAGS: [ECON](#) [EPET](#) [EINV](#) [ENRG](#) [ETTC](#) [PREL](#) [IR](#) [CH](#)

SUBJECT: PRC/IRAN: ISA Demarche: Chinese Firms
Pursuing Commercial Deals but No "Investment"

REF A: State 121808

B: Beijing 679

C: Beijing 149

D: 08 Beijing 4569

E: 08 Beijing 4526

F: 08 Beijing 4097

G: 08 Beijing 1073

H: 08 Beijing 1432

Classified by: Acting Economic Minister Counselor
Robert W. Forden for Reasons 1.4 (b/d).

Summary

¶1. (C) In meetings November 30-December 2, Acting Economic Minister Counselor and Econoff delivered ref A points to officials from China National Petroleum Company (CNPC), Sinopec and China National Offshore Oil Company (CNOOC). Officials from all three state-owned oil and gas firms were careful to describe their firms' projects in Iran as service or engineering contracts that did not involve equity stakes or investment of capital. The officials were well-acquainted with USG policy towards Iran and the provisions of the Iran Sanctions Act (ISA) from previous discussions with Embassy officials (refs B-H). In several specific cases, the officials refuted recent Iranian media reports announcing major new energy projects. Separately, Poloff delivered ref A points to the Iran Desk Officer at MFA, who had no substantive response but was interested in further information on possible amendments to the ISA. End summary.

Iran Sanctions Act Review

¶2. (C) Acting Economic Minister Counselor met separately with CNPC's Director General for International Affairs Zhang Xin, Sinopec's Director General for Foreign Affairs Tang Suxin, and CNOOC's Director General for Foreign Affairs Zhu Yiran

November 30-December 2 to discuss the Iran Sanctions Act (ISA). Drawing on ref A points, Acting Economic Minister Counselor said the State Department, pursuant to the commitment made by Assistant Secretary Feltman, had begun a review of more than 20 energy firms and asked for updated information on the Chinese firms' energy projects in Iran. He emphasized Iran's failure to meet its international obligations with regard to its nuclear program was unacceptable and this was not a time for "business as usual." He urged the firms to consider the increasing political risks involved in doing business with Iran and highlighted possible changes to U.S. sanctions legislation that would lower the threshold of prohibited activities and broaden the scope of investments to include engineering and construction contracts.

CNPC

¶ 3. (C) DG Zhang expressed appreciation for the opportunity to hear from U.S. Embassy officials on this topic and promised to forward our concerns to senior company officials. Regarding CNPC's business activities in Iran, Zhang said CNPC engaged in small-scale service and engineering contracts and did not have any investments in Iran's energy sector. He estimated the total value of these service contracts at roughly USD 100 million per year. The types of services included drilling,

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seismic, and logging services as well as supplying spare parts and overhauling equipment. Zhang said CNPC imported a relatively small amount of Iranian crude oil, less than 2 million tons in 2008, due to the high sulfur content of Iranian oil which made it difficult to refine. Responding to questions regarding specific energy projects, Zhang provided the following updates:

-- North Azadegan Oilfield: After many years of discussion, CNPC received Iranian government approval in the second half of 2009 and has begun preliminary engineering design work. Asked if the project included a buyback provision, Zhang did not answer directly but said the agreement was a "100 percent technical services contract." When asked about media reports putting a USD 1.76 billion value on the deal, Zhang said CNPC has never publicly released a dollar value and declined to offer an estimate of its value. Zhang noted this deal was relatively small in scale compared to other projects such as the BP-CNPC service contract for the Rumaila oilfield in Iraq.

-- South Azadegan Oilfield: Zhang said CNPC has held discussions with Iran, but the two sides have been unable to reach agreement and no contract has been signed.

-- South Pars Gas field: Zhang said CNPC was involved in discussions with Total five years ago on joint development of South Pars, but the project had not moved forward since. While CNPC maintains a strong interest in increasing LNG imports from around the world, including from Iran, it has not reached agreement on price or supplies for South Pars gas. Zhang said CNPC was keeping close watch on Total's development of South Pars and hoped to purchase LNG in the future.

-- Kuh Dasht Exploration Well: Zhang said this small-scale demonstration project started in 2005 as a way to showcase CNPC's technical abilities and

help open the door to future business opportunities in Iran. He said one well had been drilled and some 2D seismic work had been completed but that no oil had been struck.

Sinopec

¶ 4. (C) DG for Foreign Affairs Tang Suxin said Sinopec was familiar with USG concerns regarding energy projects in Iran and promised to forward our concerns to Sinopec's leadership. He emphasized Sinopec's activities in Iran were limited to engineering and service-based contracts and could not be considered as equity investments. Tang said Sinopec believes the Iran nuclear issue should be dealt with separately from energy supply and energy security issues and that as a responsible company, Sinopec acted in accordance with all relevant UN Security Council resolutions.

¶ 5. (C) Due to the urgent scheduling of this meeting, Tang claimed he did not have time to consult with all of Sinopec's subsidiary companies and therefore could not provide any updates on business activities in Iran. Regarding Sinopec's engineering service contract to develop the Yadavaran oilfield, Tang said this agreement was signed in December 2007 with Sinopec International Petroleum Company (SIPC), a wholly-owned subsidiary of Sinopec. Tang claimed work at Yadavaran was proceeding very slowly, and

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the project was behind schedule, but did not offer further details.

Sinopec: Not Working on New Refinery Deals

¶ 6. (C) Regarding recent Iranian media reports that Sinopec had signed an agreement to provide USD 6.5 billion in capital to the National Iranian Oil Refining and Distribution Company to build and upgrade Iranian refineries, Tang said he was unaware of any new business agreements with Iran. Acting Economic Minister Counselor reminded Tang of the need to provide accurate updates on Sinopec's energy projects to counter often exaggerated or erroneous Iranian media reports. [Note: following the meeting, Sinopec officials confirmed to the Embassy that no new agreements had been signed regarding Iranian refineries. End note].

CNOOC

¶ 7. (C) DG Zhu said CNOOC had held discussions with Iranian officials in the past on potential energy cooperation, but firmly denied CNOOC had signed any contracts or begun any concrete projects in Iran. He said Iranian officials were extremely difficult negotiators, and Chinese officials often did not have a good understanding of Persian culture and way of doing business. Responding to questions regarding two reported energy deals, Zhu provided the following details:

-- North Pars Gas field: According to Zhu, there has been no agreement or actual development of North Pars. He dismissed media reports of CNOOC reaching "preliminary agreement" on North Pars, stating that Iranian officials often claim an MOU has been signed when in fact only discussions have been held.

-- Resalat Oilfield: When shown an Iranian-sourced media report claiming CNOOC had agreed to

participate in this USD 1.46 billion deal, Zhu said he knew from first-hand knowledge that no such agreement had been achieved. He said China Oilfield Services Limited (COSL), a subsidiary company of CNOOC, had been approached several years ago by a Malaysian firm to provide an offshore drilling platform to work in the Resalat field. Following the global financial crisis, interest in the project waned and COSL pulled out of the project.

MFA

¶8. (C) PolOff also delivered ref A points December 1 to MFA West Asian Affairs Department Iran Division Deputy Director Ni Ruchi. Ni had no immediate substantive response, but sought additional details on possible future ISA amendments and expressed hope that the U.S. side would update Beijing on any developments in the content of the ISA.

Comment

¶9. (C) China's three big energy giants are familiar with our Iran policy and are careful to describe their activities as service contracts and not investments, with an eye towards avoiding possible ISA sanctions. Our interlocutors were clear that their companies pursued opportunities in Iran for commercial reasons only with no political agenda.

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Absent a clear directive from China's political leaders or new multilateral sanctions, it is unlikely these companies will halt their pursuit of opportunities in the Iranian hydrocarbon sector that they deem profitable. End Comment.

Huntsman